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RR RUEHMA RUEHPA
DE RUEHBP #0225/01 1041637
ZNR UUUUU ZZH
R 141637Z APR 09
FM AMEMBASSY BAMAKO
TO RUEHC/SECSTATE WASHDC 0225
INFO RUEHZK/ECOWAS COLLECTIVE
RUCPDOG/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 03 BAMAKO 000225

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EIND](#) [ETRD](#) [EINT](#) [EAGR](#) [ML](#)

SUBJECT: GOLD INDUSTRY LURES INVESTORS GOOD AND BAD

REF: 08 BAMAKO 00199

¶1. Summary: Comprising an estimated 70 percent of Mali's exports, gold is frequently cited as the country's most important financial resource and a key engine for its economic growth and development. In light of this, Mali held its third annual mining and petroleum conference in Bamako from March 30 to April 2. The conference assembled current and potential investors and public officials involved in these sectors. The theme of this year's conference, "Mines and Community Development", also evoked what some view as the gold mining industry's insufficient contribution toward economic development in Mali. While the revenues Mali receives from gold are a significant share of the country's exports, critics argue that this has not benefited average Malians. In addition to increased debate about gold mining's link to development, the ever expanding spotlight on Mali's legitimate gold industry is also attracting more and increasingly creative illicit gold export scams. End Summary.

Mali's Gold Mining Industry

¶2. Mali is Africa's third largest gold producer after South Africa and Ghana. Since ramping up production in 2000, gold extraction has accounted for the largest share of the value of Mali's exports, reaching 70 percent in 2008. While the total volume of gold production in Mali is significant, its gold industry is all the more attractive because the operating costs of its open pit mines are less than half the world average. For the past several years, the Malian government has touted investment opportunities in the sector, hoping to leverage rising gold prices to increase production and fuel economic growth. To this end, Mali held its third annual mining and petroleum conference in Bamako on March 30 through April 2. Opened by Prime Minister Modibo Sidibe, the conference featured dozens of current and prospective private sector investors, public sector officials, and representatives of the international donor community.

¶3. Mali has six industrial gold mines, two of which, Sadiola and Morila, have accounted for most of the country's production. Analysts suggest that Mali's gold mining industry is in permanent decline, however, with industrial gold production having peaked in 2002 at 62 tons. Since then, production has ebbed and flowed, falling to 45 tons in 2004 and rising to 61 tons in 2006, subsequently falling to 50.8 tons in 2008. The decline in output has so far been offset by rising international gold prices, which reached a high of USD 1,000/troy oz in mid-2008. As a result, government revenue from gold operations in 2008 was higher than the CFA 34.4 billion (USD 71 million) earned in 2007.

¶4. While the decline in production has not affected GOM revenues, it has increased costs for operators. One company, AngloGold Ashanti, reported an operating loss on two mines for the third quarter of 2008. To mitigate these losses, AngloGold invested in new technologies to extract high-grade sulfide ores at Sadiola. The decline in output has also

placed renewed importance on efforts to develop new mines, such as Randgold's Yalea and Gara mines. Some investors, however, have had difficulty raising the funds they need from international capital markets due to global financial turbulence. Australia's Resolute Mining, for example, was able to raise only USD 55 million of the required USD 73 million to develop Mali's Syama pit. Junior mining companies have also had to turn to new partners to finance their projects.

GOM Revenue from Gold Mining

15. Malian government revenue from the gold industry is made up of the dividends it receives as a shareholder in the mines and of the taxes, customs, and royalties paid by the mining firms. Mali's 1999 mining code, implemented in 2003, imposed on mining firms a 35 percent income tax and a dividend tax of between 12.5 and 18 percent. The GOM retains a 20 percent equity in each mine. Operators receive investment incentives such as the duty free import of heavy machinery used in production and refining, as well as the duty free import of fuel used to power generators at mining sites.

16. Between 1994 and 2004, the Malian government derived a total of USD 624.5 million in royalties, taxes, customs and dividends from the gold mines, an average of USD 57 million per year. In 2007, following the boom in production of the previous year, revenues reached CFA 130 billion (USD 260 million). All told, the mining sector, in which gold is the primary commodity, comprises between five and fifteen percent

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of Mali's GDP. Mali's 2009 budget estimated that revenues from gold would reach CFA 120 billion (USD 240 million). This will be offset, however, by the GOM's value-added tax (VAT) refund to companies for the years 2006-2007, estimated at CFA 60 billion (USD 122 million), 1.5 percent of Mali's GDP.

"Gold Doesn't Shine for All Malians"

17. The promise of gold's contribution toward Mali's economic diversification and growth has drawn skepticism from some observers, who claim that the average Malian has been conspicuously absent from this supposed development panacea. A 2006 study on the socioeconomic effects of gold mining in Mali, which was commissioned by the World Bank and undertaken by Norway's Chr. Michelsen Institute, argued that communities in the vicinity of the Sadiola and Morila mines have seen little benefit from the industry. An article in the Malian press on the eve of the mining conference declared that, "gold doesn't shine for all Malians", despite the fact that government revenue from the industry totaled CFA 130 billion (USD 260 million) in 2007. In response to such criticism, the Malian government indicated it would establish public-private partnerships using mining revenue to build much needed infrastructure around the mines as well as contribute to community development. An article in the government's official news outlet on March 31 stated the GOM would give renewed attention to residents in the vicinity of the mines, providing services such as potable water and health clinics. One such model for development has been the ongoing partnership between the Morila mine, USAID, and the Commune of Sanso to strengthen local government capacity to more effectively use mining revenue toward community development.

Artisanal Gold Mining Unearths Scams

18. In contrast to its industrial mining industry, Mali's

artisanal gold mines, which produce an average of 2 tons each year, are poorly regulated and thus provide fertile ground for scams. The Embassy frequently receives requests from prospective U.S. investors seeking to export gold from Mali. Most of these scenarios involve the export of gold dust, which is illegal in Mali (reftel). In one recent instance, the Embassy was contacted by the U.S. based attorney of a potential investor, allegedly negotiating the purchase of one ton of gold dust from a Malian artisanal mining cooperative. We informed the American attorney that the export of gold dust was illegal in Mali. After conducting some brief background research, we also determined that the Malian attorney the U.S. investor had hired to oversee the transaction was not, in fact, a registered attorney and had provided his American partners with fabricated court documents designed to mimic Malian legal rulings.

¶9. The latest gold scam reported in the Malian press involved a group of Russian nationals who reportedly lost CFA 6 billion (USD 12 million). As reported by one Malian newspaper on April 1, the complex scheme involved a motley crew of nationalities, diplomats and private citizens. The Russians were allegedly introduced to two Malian businessmen, owners of a nightclub and travel agency, via the defense attache of the Embassy of Guinea-Bissau in Moscow. The Russians traveled to Mali to meet their contacts, from whom they purchased 30kg of gold (the articles did not specify whether this was in the form of dust or bars). The Malians then put the Russians into contact with a member of the National Assembly of Benin and a Togolese businessman, who offered to sell the Russians an additional 80kg of gold. After having received their payments, the sellers reportedly absconded, having given the Russians none of the gold for which they had paid. The article quoted the Guinea-Bissau defense attache as claiming he used his cut of the deal - CFA 376,250,000 (USD 752,500) - to charter an airplane. The Malians involved in the scheme were reportedly arrested on March 27 and are awaiting trial.

Comment: Gold May Not Prove the Nest Egg that Mali Hoped

¶10. The high price of gold on the global market, and Mali's ranking as the third largest producer in Africa, has placed Mali on the center stage for investment in the sector. The countercyclical nature of the gold industry vis a vis other commodities, such as cotton, has buffered Mali from the global financial crisis and compensated for falling revenue from cotton exports. The Malian government has duly

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attempted to take advantage of this in order to diversify its economy and fuel economic growth. Declining output and rising operational costs may, however, stymie these efforts and leave Mali even further exposed to the volatility of commodity prices on the world market.
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